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Pakistan

Cotton and Products

Cotton Annual: 2006

2006

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Report Highlights:

The MY 2006/07 cotton forecast is 2.312 Million Metric Tons (MMT), the second largest ever. Progressive textile mills are focusing on producing better-quality products, particularly for the export market, making Pakistan a leading market for U.S. contamination free medium/long staple and Pima cotton. Consumption continues to increase in response to expanding export markets and strong domestic demand. With domestic prices increasing mills are finding the importation of upland cotton increasingly attractive.

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Executive Summary

The MY 2006/07 crop is forecast to be the second largest ever at 2.312 Million Metric Tons (MMT) as farmers covet the higher returns witnessed during MY 2005/06. Progressive textile mills are focusing on producing better-quality products, particularly for the export market, in the process making Pakistan a leading market for U.S. contamination free, upland and Pima cotton. Imports of raw cotton are projected to be high. Total consumption continues to expand in response to exports and strong domestic demand. Domestic prices are increasing, rising to world rates for comparable grade local lint. Mills are finding the importation of upland cotton increasingly attractive.

Table 1: Cotton Production, Supply and Demand

Pakistan Cotton							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		08/2004		08/2005		08/2006	MM/YYYY
Area Planted	0	0	0	0	0	0	(HECTARE)
Area Harvested	3190000	3192300	3150000	3100000	0	3260000	(HECTARE)
Beginning Stocks	441985	441985	844779	659299	697814	563896	(MT)
Production	2460310	2426122	2122834	2143884	0	2312926	(MT)
Imports	370135	382427	370135	413021	0	474971	(MT)
MY Imp. From U.S.	0	0	0	0	0	0	(MT)
TOTAL SUPPLY	3272430	3250534	3337748	3216204	697814	3351793	(MT)
Exports	81647	119806	76204	95845	0	91053	(MT)
USE Dom. Consumption	2340560	2465986	2558287	2551020	0	2636054	(MT)
Loss Dom. Consumption	5443	5443	5443	5443		5443	(MT)
TOTAL Dom. Consumption	2346003	2471429	2563730	2556463	0	2641497	(MT)
Ending Stocks	844779	659299	697814	563896	0	619243	(MT)
TOTAL DISTRIBUTION	3272429	3250534	3337748	3216204	0	3351793	(MT)

Production

Pakistan's MY 2006/07 cotton crop is off to a good start, due in part, to near normal weather conditions accompanied by a sufficient supply of inputs. Cotton, predominantly a monsoon season crop, is planted from the end April through June and is harvested in the fall. Planting intentions are usually influenced by the relative prices of competing crops such as sugarcane and paddy, weather forecasts and Government policy. During MY 2005/06 the market prices prevailed above the indicative prices, leading to marginal increase in area under cotton in 2006. Therefore, cotton yields are forecast to be higher as the farmers are geared to use quality inputs spurred by record returns from the previous crop. The monsoon season usually arriving in early July is expected to provide sufficient moisture to get the crop started. Resowing has not been a problem in cotton growing areas thru May 2006. MY 2006/07 production is forecast at 2.312 MMT, assuming a marginal increase in area and other production conditions hold steady for the remainder of the season.

Pakistan's Ministry of Food, Agriculture and Livestock (MINFAL) estimates the MY 2006/07 cotton harvest at 2.35 MMT.

Status of Bt Cotton

Pakistan realizes the significance of Bt cotton; it has surpassed the major obstacle to adapting biotechnology by enacting the Biosafety Guidelines and Rules in April 2005. These rules set up legal requirements for the development of Bt cotton through state institutions as well as with the coordination of multinational companies, local companies and individuals engaged in this business. The National Institute for Biotechnology and Genetic Engineering (NIBGE) has so far developed four strains of Bt cotton namely "IR-FH-901", "IR-NIBGE-2", "IR-CIM-448" and "IR-CIM-443" and is now going to present these to the National Biosafety committee (NBC) for approval to release these GMO's in the environment. Then as per the provisions of Seed Act 1976 these will go through the normal seed certification system for their commercial release and availability for general cultivation of these approved varieties.

Bt seeds are highly sensitive to soil, agro climatic conditions, genotype and the management of the crop. In Pakistan due to the threat of Cotton Leaf Curl Virus (CLCV) the seeds of pirated varieties may not perform well, therefore, the scientists are discouraging the cultivation of cotton from such sources.

Production Policy

Cotton is the backbone of Pakistan's economy. The GOP announces the Minimum Support Price (MSP) for cotton at the start of each marketing season. The Trading Corporation of Pakistan (TCP) is held responsible for intervening in the market if the prices fall below the MSP. During the last two years there was no state intervention when the market prices remained above the support prices. For MY 2006/07 the GOP has announced the support price as Rs.1025 per 40 Kg (Rs. 25625 per MT = \$ 427 per MT). Despite what turned out to be a good crop in MY 2005/06, initial uncertainty over the size of the crop proved sufficient to spur market speculations early in the year, which in turn, increased farm-gate prices to the benefit of the farmer.

The government has continued a policy of placing no restriction on the cotton trade for import and export. In the 90's the government restricted exports at the beginning of the season until the size of the crop could be determined.

Consumption

Pakistan's cotton consumption increased sharply, for a fourth year in a row, in response to export-driven demand. During MY 2005/06 cotton consumption is expected to increase by 5 percent. Cumulative trends remained positive - thru the first 5 months gross export of raw cotton decreased by 27.5 %, cotton yarn increased by 45%, bed wear indicated surgence of 78.2 %, towels depicted rise of 13.2%, cotton cloth recorded an increase of 21.6%, synthetic fiber showed a decrease of 36.8 %, knitwear showed depressing trend by 1.6% and ready made garments showed rising trend of 58.7 %. The textile industry has reported a 5 percent increase in the use of cotton and 4.78 percent of man-made fiber in first five months of the MY 2005/06, compared to the corresponding periods of last year. The spinning and weaving industries continue to invest heavily in new equipment as well as to renovate existing equipment. Strong domestic demand, with a marginal increase over last year, and stronger export demand underpin the current market surge. Looking toward future the textile industry knows to remain competitive in the global market, it must aggressively pursue quality improvements and product diversification to include more value-added products, rather than rely on low-value yarn-based exports.

Synthetic fiber continues to gain acceptance among consumers who increasingly seek less expensive blended products to compensate for their shrinking buying power. Future growth in cotton versus synthetic fiber is likely to be determined by the relative price of these items. The long-term trend is for synthetics to comprise an increasing share of domestic consumption. Cotton- Synthetic blends are popular due to their durability and ease in washing and maintenance under tropical conditions. The growth in synthetic fiber use has shown an increase despite rising petroleum prices in the international market.

Table 2: Cotton and Synthetic Fiber Consumption

Year 1/	Cotton (MT)	Synthetics (MT)
1999/00	1,566,348	404,008
2000/01	1,673,280	405,038
2001/02	1,755,669	409,557
2002/03	1,780,963	406,515
2003/04	1,933,679	468,982
2004/05	2,099,380	292,670
2005/06 2/	735,155	170,727

1/ July-June Marketing Year Data: Based on reporting mills information / Textile Commissioners Organization

2/ July-October Data Only: Based on reporting mills information / Textile Commissioners Organization

Source: Ministry of Industries and Ministry of Finance, Government of Pakistan

Table 3: Yarn and Fabric Production

Year	Yarn (MT)	Cotton Cloth (Mil. Square meter)
1999/00 1/	1,669,900	437.2
2000/01	1,721,000	490.2
2001/02	1,808,600	568.4
2002/03	1,915,160	576.6
2003/04	1,473,240	581.706
2004/05 2/	1,618,422	842.291
2005/06 3/	570,818	272.033

1/ July/June Marketing Year

2/ Preliminary Data

3/ July-October Data Only

Source: Ministry of Industries and Ministry of Finance, Government of Pakistan

Trade

In MY 2005/06 Pakistan is projected to be a net importer of cotton as a result of strong domestic demand for better grades of cotton. During the first three months of the MY 2005/06, Pakistan imported 65,699 MT of cotton, whereas, exported 35,725 MT of cotton in the first six months. Firms often import upland cotton for their export programs due to contamination problems in local cotton, particularly with alien fibers (polypropylene, jute). The problem occurs during the harvest and handling, it wreaks havoc in the industry by creating yarn with differential yarn strength and differential dye uptake. Estimates are that

contamination increases a mills' cost by 10 percent or more. Some mills have standardized their blend for export markets, with a predefined origin and percentage of imported cotton in the product. In MY 2003/04 and in MY 2004/05, Pakistan remained the largest buyer of U.S. Pima/ELS cotton but during 2005/06 PIMA cotton import decreased drastically due to more than 60 percent increase in its prices and a lot of inconvenience faced by Pakistani importers to visit U.S. having difficulty in getting visa. Progressive firms are focused on producing higher-count yarns and better quality fabrics for the export market. Specialized products demanded in the domestic market thus will continue to turn to quality inputs such as the U.S. Pima cotton and contamination free upland cotton.

In MY 2006/07 Pakistan's import of US Pima /ELS and a variety of other medium to long staple cotton is expected to be strong. The demand for imported middling grade cotton may decline if the forecast of a large domestic crop materializes.

Stocks

MY 2006/07 carry over stocks are forecast to increase based on higher domestic production accompanied by enhanced import of medium and long staple cotton during the year. Most of the mills will be covered through November and December 2005, when the bulk of domestic crop will come onto the market.